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MANAGEMENT OF ASSETS IN INDIAN BANKING SECTOR – A COMPARATIVE STUDY OF SELECT BANKS

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Abstract
Management of Assets is important responsibility of any commercial bank. The asset-quality is tool used to determine the overall performance of any bank. The management of assets is evaluated based on the overall liquidity position and Non-Performing assets of concern bank. The present study analyses the overall performance of asset-quality of select public and private banks and the study compares the asset quality of select public and private banks.

The study analyses the overall position of Investments, Fixed Assets and NPA's of select banks and compares the growth rates of said three financial parameters. It is also studies the necessary risk parameters which are influencing the asset-quality in select banks. The current paper also identifies the factors relevant to improve the asset-quality of select banks. It evaluates the how the different forms of risk are associated managing the asset-quality. The study also concentrates on how the NPA's influencing the quality of assets in banking sector. The study evaluates the performance of banks based on overall growth of fixed assets and investments and explains the importance of these two factors in managing the asset-quality.

The present study evaluates the asset quality of select banks based on average growth of NPA's, Fixed Assets and Investments during the last five financial years and also recommended the necessary measures to improve the asset-quality in select public and private banks.

Key Words: Asset-Quality, Fixed Assets, Investments, NPA, Risk.

1. Introduction

In banking sector, asset quality is always a cause of concern as it influences flow of fresh credit to productive sectors of the economy that is more critical during the ongoing revival. The recent data points reflect the marked improvement in the asset quality, more noticeably during the pandemic period. It will be pertinent to look at how the asset quality had improved to see if it will be sustainable. Prompt recovery of loans has always been an important tool for the sustainability of the financial system. During post reform period, various loan recovery tools have been developed. The position of Gross Non-performing loans (GNPAs) improved in the recent years.

Withdrawal of regulatory forbearance on restructuring of advances from April 2015 and a subsequent AQR (asset quality review) led to more realistic recognition of gross NPAs (GNPAs). It led to sudden rise in GNPAs. After reaching a peak of 11.5 per cent in March 2018 the GNPA ratio has been declining, mainly driven by lower slippages (downgrades of loans), partly due to the asset classification standstill clause and grant of moratorium to overcome the pandemic crisis. With the decline in delinquent assets, their provision requirements also dropped and the net GNPA ratio of Public sector and Private Banks eased compared to previous year.

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2. Recent Trends in Asset-Quality of Indian Banks

The moderation in GNPA ratios of banks that began in 2019-20, continued and GNPAs further declined to 6.9 per cent by end of September 2021. After implementation of AQR by RBI, banks witnessed steep rise in NPAs. As a result of transparent recognition of stressed assets, gross NPAs of PSBs rose from Rs 2,79,016 crore (gross NPA ratio of 4.97 per cent) as on March 31, 2015, to Rs 8,95,601 crore (gross NPA ratio of 14.58 per cent) as on March 31, 2018.

During the two waves of Covid-19, the central bank had announced Resolution Frameworks (RF) 1.0 and 2.0. While the restructuring of large accounts under RF 1.0 could be invoked by December 31, 2020, and implemented within 180 days from the date of invocation, they have time till September 30, 2022, to achieve the operational parameters. In the meantime, the restructured standard loans under RF 1.0 and RF 2.0 worked out to 1.80 percent of the total assets. The restructured loans which have come down steeply to 0.30 percent has gone up again due to Covid-19 induced stress.

3. Risk Management in Banking Sector

Risk management in banking sector would involve knowing the risk, measuring it, and controlling it within the risk appetite of the bank by using appropriate mitigates. The below are the different forms of risk associated in Indian banks.

Liquidity Risk

Measuring and managing liquidity needs are vital for effective operation of commercial banks. By assuring a bank's ability to meet its liabilities as they become due, liquidity management can reduce the probability of an adverse situation developing. The importance of liquidity transcends individual institutions, as liquidity shortfall in one institution can have repercussions on the entire system. Banks management should measure not only the liquidity positions of banks on an on-going basis but also examine how liquidity requirements are likely to evolve under different assumptions.

Currency Risk

Dealing in different currencies brings opportunities as also risks. If the liabilities in one currency exceed the level of assets in the same currency, then the currency mismatch can add value or erode value depending upon the currency movements. The simplest way to avoid currency risk is to ensure that mismatches, if any, are reduced to zero or near zero. Banks undertake operations in foreign exchange like accepting deposits, making loans and advances and quoting prices for foreign exchange transactions. The increased capital flows across free economies following deregulation have contributed to increase in the volume of transactions. Large cross border flows together with the volatility has rendered the banks' balance sheets vulnerable to exchange rate movements.

Interest Rate Risk

The phased deregulation of interest rates and the operational flexibility given to banks in pricing most of the assets and liabilities imply the need for the banking system to hedge the Interest Rate Risk. Interest rate risk is the risk where changes in market interest rates might adversely affect a bank's financial condition. The changes in interest rates affect banks in a larger way. The immediate impact of changes in interest rates is on bank's earnings (i.e. reported profits) by changing its Net Interest Income (NII). A long-term impact of changing interest rates is on bank's Market Value of Equity (MVE) or Net Worth as the economic value of bank's assets, liabilities and off-balance sheet positions get affected due to variation in market interest rates.

Credit Risk

Risk from credit management emanates from the possibility that the business does not take off as projected. It is likely that the project report based on which a credit proposal is submitted is highly optimistic. There is therefore a need to evaluate a proposal for how close the projections might be to reality. Even assuming that the projections were reasonable, there is the possibility that external factors might render the projections unachievable.

An effective pre-disbursement control is a very important element of credit risk management. Banks are quite liberal in waiving sanction terms without being mindful of the risk mitigate they are letting off go in the process. Almost every condition of sanctions a risk mitigant. Sometimes there may be more than one serving the same purpose. A proper evaluation of the waivers, modifications and suggestion of alternate measures in substitution of waived requirements would go a long way in reducing credit risk.

4. Impact of Better Asset-Quality in Indian Banks

Improved asset quality will have multiple benefits. Lower risk weightages will bring down the outstanding risk weighted assets that will save the capital of the bank. As a result, the capital to risk-weighted assets ratio (CRAR) of SCBs has improved sequentially every quarter from end of March 2020 to reach 16.6 per cent at end of September 2021.This was essentially driven by a rise in core capital across bank groups, attributable to higher retained earnings and recapitalization of PSBs (Public Sector Banks) by the government and raising of capital from the market.

The share of large borrower accounts exposure of ₹5 crore or more in total advances declined to 51 per cent by March 2021 from 54.2 per cent a year ago. The contribution to total GNPAs also declined in tandem from 75.4 per cent to 66.2 per cent during the same period. The special mention accounts-2 (SMA-2) ratio, which signals impending stress, has risen across bank groups since the outbreak of the pandemic. The provision coverage ratio improved to 68.1 percent. The improvement in asset quality can remain sustainable if the quality of sourcing of credit and systemic controls to monitor the credit remains efficient and effective.

5. Importance of Asset-Quality in banking sector

Asset-Quality is an important determinant of risk that impacts liquidity and costs, analysts go to great lengths to make sure they issue the most accurate evaluations possible. Indeed, their pronouncements can greatly affect the overall condition of a business, bank, or portfolio for years to come. It is also an important determinant of the overall financial condition of a bank. For banks, the primary factor affecting overall asset-quality is the quality of their loan portfolio and their credit administration program. Asset quality assesses the relative riskiness of assets held in a portfolio of concern bank.

6. Literature Review

Literature review is an important tool to knew the research executed by several researchers in past for a particular topic, the below is the important literature review contributed by researchers from their earlier research.

Ahmed J (2010) has studied the recovery and provisions of NPAs of select commercial banks in between 1997 to 2009. Author has compared the Net NPA as proportion of net advances among the public sector, private sector, foreign and scheduled commercial banks. Author has observed that lack of coordination between bankers and customers, changing economic policies, lack of proper monitoring,

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vision and corporate culture and inadequate legal provisions have resulted in to the growth of NPAs of commercial banks.

Debarsh and Sukanya Goyal (2012) emphasized on the management of non-performing assets in the perspective of the public sector banks in India under strict asset classification norms, use of the latest technological platform based on Core Banking Solution, recovery procedures and other bank-specific indicators in the context of the stringent regulatory framework of the RBI. The authors said that the NPA is an important constraint in the financial performance analysis of a bank as it engenders decreasing margin and advanced provisioning requirements for the doubtful debts. Also, they said that the declining of NPA is necessary to recover the profitability of banks.

Ramnadh K and Rajesham Ch (2013) have studied the scenario of Gross advances of Scheduled commercial banks in between 1996 to 2011 through categorizing as PSBs, NPSBS, FBS and OPSBs. The author has presented the pictorial analysis on proportion of GNPs, Gross advances, Net NPAs, proportion of Net NPAs to total assets. Authors have found that, there is a moderate positive correlation between credit and GDP growth rates.

Aurora N and Ostwal (2014) analysed the comparison and classification of loan assets of private and public sector banks. The authors concluded that the NPAs are still a risk for the financial institutions and banks and concerning private sector banks; PSBs have a higher intensity of NPAs.

Pasha M.A. and Srivenkataramana T (2014) have undertaken a study to analyze the magnitude of NPAs in banking industry in the select period. The evaluation is made to understand the cause of NPAs and recommendations have been made. Study further concentrated on the analysis of asset quality of select banks.

Sekhon S and Kaur J (2015) revealed that the NPA drastically impacts liquidity as it gets blocked leading to a lack of adequate cash in hand that leads to borrowing money for a short time from outside which may lead to an extra cost to the bank. The authors said that if a bank is facing the problem of NPA, in that case, it adversely influences the value of the bank with respect to market credit also it will lose its goodwill moreover brand image as the bank was unable to pay its debt on time and the effect is that people begin withdrawing their money from the bank which later causes decrease in credibility and liquidity position.

Gupta N and Kesari (2016) attempted to review the situation of NPA’s in the private and public sector banks for the past ten years starting from the financial year 2006-07. The authors collected data from the derivative research and analysed, utilizing the ratio analysis. They revealed that global economic slowdown and its impact on the Indian economy was the primary reason for the rising of the NPAs. From the study, the authors have recommended that, the recovery channels must be strengthened in order to ensure the faster recovery from Net Performing Assets.

Nanda S (2016) has conducted a survey to sort out the reason for rising NPAs on the basis of primary data obtained from bankers from five districts of Odisha state. Author has opined that the defaulters are increasing due to rising growth in the advances. Further, the study show that NPAs are providing challenges to banking sector and rising NPAs have been effecting in terms of minimizing of credit facilities. Further, the author has opined that problems of NPA have been impacting negatively in terms of progress of banks.

Tripathy S and Yadav R.N. (2016) have studied the trends of NPAs of scheduled commercial banks between 2004 to 2013. Authors have noticed that NPAs have increased more in public sector banks in comparison with private sector banks. Further, the authors have concluded that GNPA to Gross Advanced has stood 3.52 percent which is higher on an average in comparison with private sector and foreign banks operating in India.

Rajeev K.S. and Subramoniam S (2017) have identified the factors causing the NPAs in Non-banking financial institutions using Exploratory Factor Analysis. The principal component analysis extracted 45 percent of total variance. The three factors extracted using Factor analysis are items pertaining to professional incapability of the borrower, borrower nature in willful default and weak internal policy of Non-banking financial institutions.

7. Objectives of Study

The present research paper primarily emphasized more on asset-quality of select public and private banks and compares the both public and private banks in terms of asset-quality. The below are the objectives considered for current analysis.

1. To Analyze the Asset-Quality of select banks
2. To Compare the Asset-Quality of select public and private banks
3. To identify necessary measures to improve the Asset-Quality of banks.

8. Data Analysis

The present research paper considered overall four commercial Indian Banks for analysis, from the select four banks two are public and another two are private banks. The select public banks are Central of Bank of India (CB) and Indian Overseas Bank (IOB); the select private banks are Axis Bank and DCB (Development Credit Bank). The Asset-Quality of select banks are analysed based on three financial indicators which are identified as Investments, Fixed Assets and GNPA (Gross Non Performing Assets). These parameters are analyzed by considered data of five financial years starting from 2017-18 to 2021-22.

Analysis on Investments of Select Banks
Table-1, Investments (in Cr's Rupees) of Select Banks

Year	CB	IOB	Axis	DCB
2017-18	1,02,631.61	68,645.94	1,53,876.08	6,218.96
2018-19	1,25,298.07	66,932.27	1,74,969.28	7,844.09
2019-20	1,42,517.54	79,416.08	1,56,734.32	7,741.50
2020-21	1,48,582.43	95,494.22	2,26,119.62	8,413.69
2021-22	1,40,786.95	98,179.31	2,75,597.20	9,098.23
Average	**1,31,963.32**	**81,733.56**	**1,97,459.30**	**7,863.29**

Source: Annual Reports of Select Banks between 2017-2018 to 2021-2022

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The above table-1 analyses the Investment of select public and private banks during the period considered in study, it is clearly evident from above table there is a significant growth in investments of select banks. The average of Investments of Central Bank is Rs. 1,31,963.32 Cr's, Indian Overseas Bank is Rs. 81,733.56 Cr's, Axis Bank is Rs. 1,97,459.30 Cr's and Development Credit Bank is Rs. 7,863.29 Cr's. The table clearly states the investment of Axis Bank is highest compare to other three banks and the least investments are obtained by DCB with the investments equal to Rs. 7,863.29 Cr's. By comparing the above table values the investments of public bank CB and private bank Axis is higher than the Public bank IOB and Private bank DCB. The investment of DCB and IOB are not recorded the significant growth during the period considered in study.

Analysis on Fixed Assets of Select Banks

Table-2, Fixed Assets (in Cr's Rupees) of Select Banks

Year	CB	IOB	Axis	DCB
2017-18	4,343.38	2,893.43	3,971.68	494.02
2018-19	4,310.24	3,336.90	4,036.64	525.98
2019-20	4,336.18	3,127.34	4,312.90	545.87
2020-21	5,132.42	2,918.78	4,245.03	568.51
2021-22	4,955.04	3,364.90	4,572.35	661.18
Average	**4,615.45**	**3,128.27**	**4,227.72**	**559.11**

Source: Annual Reports of Select Banks between 2017-2018 to 2021-2022

The table above representing the overall value of fixed assets of selects two public and two private banks during the last five financial years. The overall average Fixed Assets of CB is Rs 4,615.45 Cr's, IOB is Rs. 3,128.27 Cr's, Axis Bank is Rs. 4,227.72 Cr's and DCB is Rs. 559.11 Cr's. It is observed from the above table the highest fixed assets equals to 4,615.45 Cr's is attained by CB during the five-year period and the least Rs. 559.11 Cr's is associated to DCB. The table numeric-values clearly determines the overall management of fixed assets is positive during the period and there is a significant growth in each bank and it is concluded the growth of DCB is low as compare to remaining three banks stated in table.

Analysis on GNPA of Select Banks

Table-3, GNPA (in %) of Select Banks

Year	CB	IOB	Axis	DCB
2017-18	21.00	25.00	7.00	2.00
2018-19	19.00	22.00	5.00	2.00
2019-20	19.00	15.00	5.00	2.00

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Year	CB	IOB	Axis	DCB
2020-21	17.00	12.00	4.00	4.00
2021-22	15.00	10.00	3.00	4.00
Average	**18.20**	**16.80**	**4.80**	**2.80**

Source: Annual Reports of Select Banks between 2017-2018 to 2021-2022

The table-3 above compares the overall GNPA's of select public and private bank during the five financial years starting from 2017-18 to 2021-22. The average GNPA of CB is approximately 18.20%, IOB is 16.80%, Axis bank is 4.80% and DCB is 2.80%. The highest GNPA ratio i.e., 18.20 attained by CB and the lowest GNPA i.e., 2.80% is associated to DCB. It is clearly noticed from the above table numeric-values the GNPA of public banks is more than private banks. The growth rate of GNPA's in private banks is very low as compared to public banks considered in study. This determines the non-performing assets are more in public banks as compared to private banks selected in present study.

Comparison of Asset-Quality of Select Public and Private Banks based on GNPA Ratios

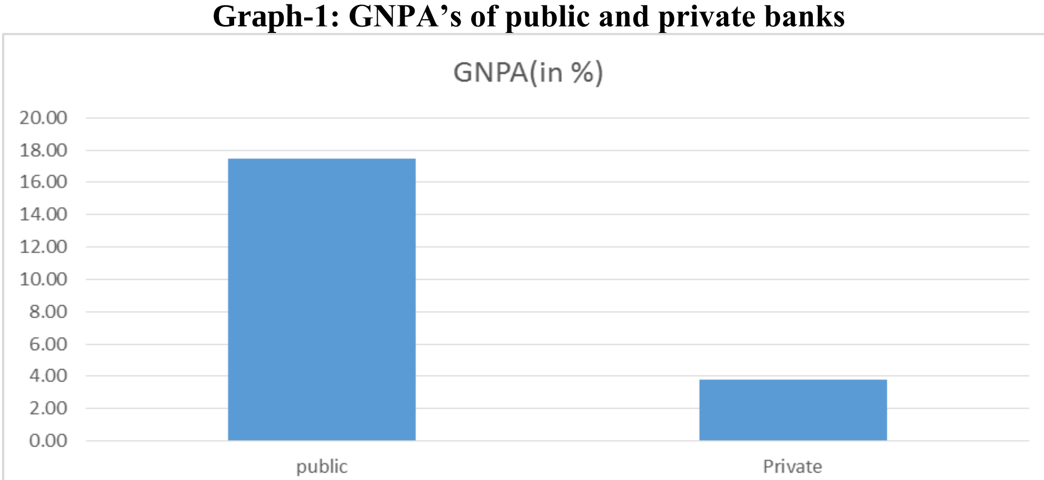
Table-4: GNPA's of Public and Private Banks

S.N	Type of Bank	GNPA (in %)
1	public	17.50
2	Private	3.80

Source: Annual Reports of Select Banks between 2017-2018 to 2021-2022

The table-4 discloses the average GNPA's five financial years of select public and private banks. The average GNPA ratio of public bank is 17.50% and private banks is obtained as 3.80% for the average of five financial years considered in present study. The table states the growth of GNPA's is much higher in public sector banks as compare to private sector bank during the last five-year period. It is noticed from the above table the asset-quality based on managing NPA's is observed at satisfactory level in private banks as compare to public banks considered in present study.

Graph-1: GNPA's of public and private banks



Source: Annual Reports of Select Banks between 2017-2018 to 2021-2022

9. Conclusion

Management of Assets is an important factor in banking sector, the performances of banking sectors is determined based on the asset quality of concern bank, the present study reveals the select public and private banks recorded the significant growth in Investments and Fixed Assets and it would have benefitted the banks in long run. The overall growth of fixed-assets in private sectors is needed to be improved and it is found overall liquidity position is good in both public and private banks. The study reveals based on last five financial years the growth of NPA's is higher in public banks and this will be resulting on overall asset-quality of bank and the study recommended particularly public banks need to be taken stringent action against loan defaulters to improve the asset-quality and private banks are recommended to concentrate more on investments and improving the liquidity position in banks.

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